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Can Corp

**sunlite
oil
company
limited**



Annual Report 1973

sunlite oil company limited

SUBSIDIARY COMPANIES

SUNLITE INTERNATIONAL INC.
SUNLITE OIL COMPANY (U.K.) LIMITED

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Calgary, Alberta
CONTINENTAL ILLINOIS NATIONAL BANK
Chicago, Illinois
CAPITAL NATIONAL BANK
Houston, Texas

AUDITORS

RIDDELL, STEAD & CO.
Calgary, Alberta

SOLICITORS

MacKIMMIE MATTHEWS,
Calgary, Alberta

TRANSFER AGENT

THE CANADA TRUST COMPANY,
Calgary, Alberta
FIRST NATIONAL CITY BANK
New York, New York

DIRECTORS

F. LESLIE CROTEAU,
Vancouver, B.C.
J. STEWART FISHER,
Calgary, Alberta
DONALD E. HOCKADAY, Jr.,
Houston, Texas
EDWIN C. JAMES,
Houston, Texas
EDWIN L. KENNEDY,
New Vernon, N.J.

OFFICERS

EDWIN C. JAMES,
President
DONALD E. HOCKADAY, Jr.,
Executive Vice President
J. STEWART FISHER,
Secretary
BARRY W. SWAN,
Treasurer

HEAD OFFICE

940, 540 - 5th AVENUE S.W.
Calgary, Alberta

BRANCH OFFICE

2500 ONE ALLEN CENTER
Houston, Texas

SUNLITE OIL COMPANY LIMITED
940 540 - 5th Avenue S.W.
Calgary, Alberta T2P 0M2

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THE GLOBE AND MAIL
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TORONTO ONT

INTERIM REPORT

**sunlite
oil
company
limited**

1973

**INTERIM REPORT
TO SHAREHOLDERS**

For Six Months
Ended March 31, 1973

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Cwarp*



TO OUR SHAREHOLDERS

"This Interim Report to Shareholders covers the six months ended March 31, 1973.

Earnings for the period, based on unaudited figures amounted to \$1,431,823 or \$.61 per share. These earnings are a result of a lease sale whereby the company realized approximately two million dollars on the sale of part of its holdings on Ellesmere Island in the Canadian Arctic. Revenue from oil and gas sales increased to \$42,502 from \$15,727 due to income from producing properties purchased during our last fiscal year and from increased production from the Hamilton Lake, Alberta Waterflood program. Interest income decreased due to capital expenditures incurred during the last half of fiscal 1972.

Carrying charges on our non-producing properties increased during the period due to our increased and land holdings, principally in the southeastern United States. Geological and seismic activity during the period resulted in increased exploration expense. The most significant portion of this was for seismic programs in the North Sea and in the McMillan Lake area of Alberta. Property surrenders and write-offs reflect the write-off of our Adriatic holdings, surrendered properties in Alberta, and the write-down of the cost of certain of the company's non-producing royalty interests in Western Canada.

Drilling and development expenditures were \$249,000 for the past six months. This reflects the company's share of costs for three successful gas wells and one suspended well, and the cost of unsuccessful exploratory and out step wells. Dry hole costs included in the above of \$230,000 resulted from an unsuccessful delineation well on our North Sea Block 48/18b costing \$176,000 and from three unsuccessful wildcats in Alberta costing \$54,000.

Property acquisitions for the period amounted to \$71,000. The principal additions were the cost of two dry holes which earned acreage in the McMillan Lake, Alberta area amounting to \$44,000, an additional investment of \$9,000 for acquisition of our seven blocks in the German North Sea and \$16,000 spent on acreage acquisition in the southeastern United States.

Work in progress at the end of the period includes expenditures during the past six months of \$77,000 which may result in the company acquiring oil and gas rights in Norway, Australia, Gambia and Bangladesh.

Working capital at March 31, 1973 is \$3,177,000 an increase of \$1,829,000 since September 30, 1972.

CANADA

ARCTIC

The Company sold its working interest in 385,000 acres on Ellesmere Island to Cities Service and Getty for \$2,100,000, retaining a three percent gross overriding royalty. The acreage consisted of the east half of Sunlite's Ellesmere Island block plus a ten percent (10%) interest in the west half of the block. Sunlite retained a 90% working interest in the west half of the block. Cities Service and Getty are obligated to generate sufficient work credits to carry all of Sunlite's eastern Arctic acreage through the full term of the permits at no cost to Sunlite. Sunlite now holds 738,796 net permit acres in the Arctic, a decrease of 489,597 acres during the past six months.

Drilling activity in the Canadian Arctic Islands region has continued at a brisk pace during the past six months. Such drilling has resulted in a number of very promising gas discoveries, most notably, Dome Wallis K-62 on Ellef Ringnes Island and Pan Arctic Hecla F-62 on Melville Island in the central part of the Arctic area. Of greater importance to Sunlite are wells nearing total depth by Imperial and Horn River Resources near the company's Axel Heiberg acreage and a recently spudded well by Panarctic eighteen miles south of the company's Ellesmere acreage.

WESTERN CANADA

Sunlite participated in drilling fifteen (15) wells in Western Canada during the past six months. Included were six gas wells, eight abandonments and one suspended well. The more significant areas were Doris Creek where two gas wells and one dry hole were drilled and the Edward and Plain Lake areas of central Alberta with one gas discovery each.

Early spring break-up forced the suspension of the well Chiefco et al Foley 6-33-65-5 W5M, approximately 12 miles north of the Doris Creek area. Sunlite and partners plan to complete this test during the next winter drilling season. Two dry holes in the McMillan Lake area were drilled under terms of a farm-in by which the company earned 50% interest in 38,000 acres. These are the last of four commitment tests in the McMillan Lake area. In addition, Sunlite has small interests

in a gas well drilled in the Wabasca area of north-east Alberta and a gas well drilled in the Clarke Lake area of northeast British Columbia.

The results of the past winter drilling program did little to affect Sunlite's land position in Western Canada. During the period under review, the company recorded an increase of 19,350 acres. The largest increase was at McMillan Lake, while acreage was surrendered at Thurston Lake and Tieland in Alberta and at Wilkie in west central Saskatchewan.

SOUTHEASTERN UNITED STATES

Drilling activity along the Jurassic Smackover play in the southeast United States has continued at a rapid pace during the past six months. In Florida and Alabama, the activity consisted of development and outpost drilling in and around the established fields such as Jay, Blackjack Creek and Escambia Creek and an active exploratory program in other areas. There are two important wildcat wells currently being drilled in Florida; one by Shell, 1½ miles north of Sunlite's Bay Springs acreage and one by C & K Petroleum, 1 mile north of our Allentown acreage. Both wells are expected to reach the objective within the next few weeks. Although the company's land holdings in Mississippi are somewhat less than in Alabama and Florida, activity appears to be moving in a southeasterly direction toward our major holdings. We have received several offers to farm in certain of Sunlite's acreage and it is expected that exploration agreements involving these lands will be completed in the near future.

INTERNATIONAL

The North Sea continues to be the hottest exploratory play in the oil industry. Sunlite had interests in two wells drilled during the winter season: British Petroleum abandoned a well on Block 21/14 in March and Ranger, et al abandoned a well on Block 48/18b in April. The 21/14 well reportedly had well developed sands and there is reason to believe that the north-eastern part of this block is prospective. The Ranger, et al 48/18b-2 well found the Rotliegende sand down faulted at a low structural position and the commercial possibilities of this gas reservoir are now being reviewed.

An increase in the tempo of drilling activity in the U.K. sector of the North Sea is expected in the spring-summer season. Although, the Sun-Sea Search group's rig will not be delivered

before fall 1973 many of the current tests of other operators will be of interest to us in locating our initial test wells. We are currently participating in Invent, et al's Q/7-1 in the Dutch sector. This 7,000' test is a farmout from NAM located on a pronounced Rotliegende seismic structure. Sunlite will pay 10% of the drilling costs to earn a 5% interest in approximately 180,000 acres. In the German North Sea our group (Kewanee-NEEG, et al) has completed its seismic survey. Initial results are encouraging, as several large salt supported structures have been identified. The Norsk Viking group (Sunlite 5%) has applied for Norwegian blocks 33/12 and 33/9 offsetting the Brent Field on the U.K. side. We understand that a large number of companies made application for these attractive blocks. Additional acreage will probably be put up by the Norwegian Government in the fall and our group is expected to apply.

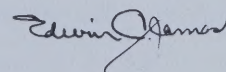
In Gambia, off the west coast of Africa, Sunlite participated in a seismic program with Oxoco, et al to earn a 5% interest in a 1,587,000 acre concession. This seismic is currently being evaluated. Sunlite joined Kewanee, et al's group in Australia in the Gulf of Carpentaria taking a 5% interest in approximately 5,935,000 acres. Seismic surveys will be conducted this summer.

RESERVES

James A. Lewis Engineering has completed an evaluation of Sunlite's oil and gas reserves as of March 1, 1973. The company's net reserves estimated by the consultants are as follows:

	Canada	U.S.	Total
Proven Oil and			
Condensate-Bbls.	744,500	27,600	772,100
Proven Gas-Mcf	30,514,500	988,900	31,503,400

A review and evaluation of the company's worldwide exploration and holdings is currently being completed by a group of consulting firms.



May 15, 1973

PRESIDENT

**SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED MARCH 31, 1973
(Unaudited)**

	<u>1973</u>	<u>1972</u>
REVENUE		
Oil and gas sales	\$ 42,052	\$ 15,727
Interest	52,149	102,327
Lease sales	1,982,982	—
Other	910	2,730
	<u>2,078,093</u>	<u>120,784</u>
EXPENSE		
Operating	9,291	8,593
General and administrative	186,237	113,804
Carrying charges on non-producing properties	61,780	27,515
Exploration and dry hole costs	290,638	20,357
Property surrenders and write-offs	93,049	30,001
Depletion and depreciation	5,275	3,785
	<u>646,270</u>	<u>204,055</u>
EARNINGS (Loss) before undernoted item	<u>1,431,823</u>	<u>(83,271)</u>
Extraordinary Item		
Gain on sale of non-producing property	—	15,360
NET EARNINGS (Loss) - Note	<u>\$1,431,823</u>	<u>\$(67,911)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING*	<u>2,357,932</u>	<u>2,323,432</u>
PER SHARE:		
Earnings (Loss) before undernoted item	\$.61	\$ (.04)
Extraordinary gain on sale of non-producing properties	—	.01
NET EARNINGS (Loss)	<u>\$.61</u>	<u>\$(.03)</u>
DIVIDENDS	<u>\$ —</u>	<u>\$ —</u>

* The dilutive effect of common equivalent shares is immaterial.

**SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF FUNDS
FOR THE SIX MONTHS ENDED MARCH 31, 1973
(Unaudited)**

	<u>1973</u>	<u>1972</u>
FUNDS DERIVED FROM:		
Operations		
Earnings	\$1,431,823	\$ —
Add Non-cash items:		
Dry hole costs	226,355	—
Property surrenders and write-offs	93,049	—
Depletion and depreciation	5,275	—
	<u>1,756,502</u>	<u>—</u>
Issuance of Capital stock	—	204,775
Deposits refunded	—	28,046
	<u>1,756,502</u>	<u>232,821</u>
FUNDS APPLIED TO:		
Operations		
Loss	—	67,911
Deduct non-cash items:		
Dry hole costs	—	(3,220)
Property surrenders and write-offs	—	(30,001)
Depletion and depreciation	—	(3,785)
	<u>—</u>	<u>90,905</u>
Fixed Assets		
Drilling and development	248,886	358,008
Property acquisitions	71,078	745,800
Other	88,292	—
Other	—	8,969
	<u>408,256</u>	<u>1,143,682</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE PERIOD	<u>1,348,246</u>	<u>(910,861)</u>
Working capital at beginning of period	<u>1,829,235</u>	<u>3,616,433</u>
WORKING CAPITAL AT END OF PERIOD	<u>\$3,177,481</u>	<u>\$2,705,572</u>

NOTE TO FINANCIAL STATEMENTS

INCOME TAXES

The companies provide in their accounts only for income taxes payable. This practise conforms with general practise in the oil and gas industry but differs from the tax allocating basis of accounting recommended by the Canadian Institute of Chartered Accountants under which the income tax provision is based upon the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported operating results, income tax provisions (credits) and earnings (losses) would have been as follows:

Six Months Ended March 31,

	<u>1973</u>	<u>1972</u>
Earnings (loss) before income taxes	\$1,431,823	\$ (67,911)
Income Taxes (credits)		
Current	—	—
Deferred	667,413	(33,956)
Net Earnings (Loss)	<u>\$ 764,410</u>	<u>\$ (33,955)</u>
Net Earnings (Loss) Per Share	<u>\$.32</u>	<u>\$ (.015)</u>

NOTE
2250

To The Shareholders

Financial Review

Sunlite Oil Company Limited earned \$1,121,235 or \$.47 per share for the year ended September 30, 1973. Earnings are largely a result of a sale of part of our holdings on Ellesmere Island in the Canadian Arctic for \$2.1 million. Oil and gas sales were \$139,697, nearly a fourfold increase over fiscal 1972.

Operating and general and administration costs have risen from \$255,000 to \$425,000 resulting directly from the greater number of wells on production and our increasing attention to world wide exploration. The company has undertaken extensive seismic programs in the North Sea, in the southeastern area of the U.S.A. and in the McMillan Lake area of Alberta which have outlined prospects for future drilling, and we are participating with groups formed to make applications for offshore licenses in Norway and Ireland.

Drilling and development expenditures of \$682,584 incurred during fiscal 1973 reflect the company's share of drilling fourteen successful gas wells in Alberta and one gas discovery in the Dutch North Sea. Dry hole costs of \$242,000 included in the above, resulted from an unsuccessful delineation well on our British North Sea Block 48/18b costing \$165,000 and from Sunlite's interest in seven unsuccessful wildcats in Alberta.

Property acquisitions for the year totalled \$1,320,654 principally for purchases of a royalty interest in the Hilda, Alberta area and a producing oil property in the Viewfield, Saskatchewan area. The company paid \$165,000, its share of unrecovered costs, to convert our .625 percent net profits interest

to a 2.5 percent working interest in the Hamilton Lake, Alberta waterflood program. Property surrenders and write-offs include the write-off of our Adriatic holdings, certain leases in the southeastern U.S.A. and in Alberta and the write-down of the cost of royalty interests in Western Canada and the United States. Acquisitions of exploratory acreage were made in Alberta, the southeastern U.S.A., the Dutch Sector of the North Sea, offshore Gambia and offshore Australia.

Working capital at the end of the year was \$1,485,413, a decrease of \$343,822. As shown by the notes to the financial statements, there were obligations for work commitments of \$403,000 under various exploration agreements. These obligations can be discharged by sale of our interest, by farming out the acreage to others or by performing the work commitments.

Sunlite Oil Company Limited's oil and gas reserves estimated as of September 30, 1973 by company engineers are as follows:

	<u>Canada</u>	<u>U.S.</u>	<u>Total</u>
Proven Oil & Condensate (Bbls.)	1,850,000	27,600	1,877,600
Proven Gas (Mcf.)	37,600,000	988,900	38,588,900

The number of shares of the capital stock of Sunlite Oil Company Limited outstanding at September 30, 1973 was 2,377,932.

Exploration Activities

North Sea

Activity in the United Kingdom and Norwegian sectors of the North Sea continues at a high level and is expected to accelerate in 1974 as a new generation of semi-submersible drilling rigs is completed for use in the severe climatic conditions encountered in this area.

Since 1971 there have been sixteen major discoveries in the Tertiary Basin of the central and northern portion of the North Sea. Within this short time, it is conservatively estimated that reserves of 10 billion barrels of oil and 20 trillion cubic feet of gas have been found. Among the discoveries are the giant fields: Ekofisk with 2.5 billion barrels, Forties with 2 billion barrels, Brent with 1.5 billion barrels, Beryl with 1 billion barrels and Frigg with 15 trillion cubic feet. Other major discoveries include the Thistle, Cormorant, Piper and Heimdal fields. When smaller discoveries and field extensions are included, North Sea oil reserves are now at least 12 billion barrels. To put this remarkable result and the great future potential of the North Sea in perspective, the remaining reserves in the United States including Alaska approximate forty billion barrels.

There has also been steady exploration and discovery of less spectacular but significant gas fields in the southern U.K. and Dutch waters. In an already energy short Europe, we expect these discoveries to be economically viable in the near future. It now appears to us that a great number of smaller structures can be considered prospective for testing because of demand and recent increases in oil and gas prices.

Sunlite is in the North Sea play for the longterm and fully expects to participate in its development.

United Kingdom

Technical evaluation of Sunlite's North Sea U.K. holdings in twelve blocks is essentially complete including detailed seismic, stratigraphic and structural interpretations. As a result of this work,

it is anticipated that Sunlite will participate in the drilling of a minimum of six wells on prospects which have been delineated. Sunlite's interest will be 5% in two wells and 10% in four wells. Our group contracted jointly with Sun Oil Company for the Penrod 71 semi-submersible drilling rig to drill our North Sea prospects. Due to construction and other problems, delivery of this rig has been delayed and the group is now negotiating for another rig which is planned for completion in 1974. We expect that our first test will be drilled in the U.K. offshore area next year.

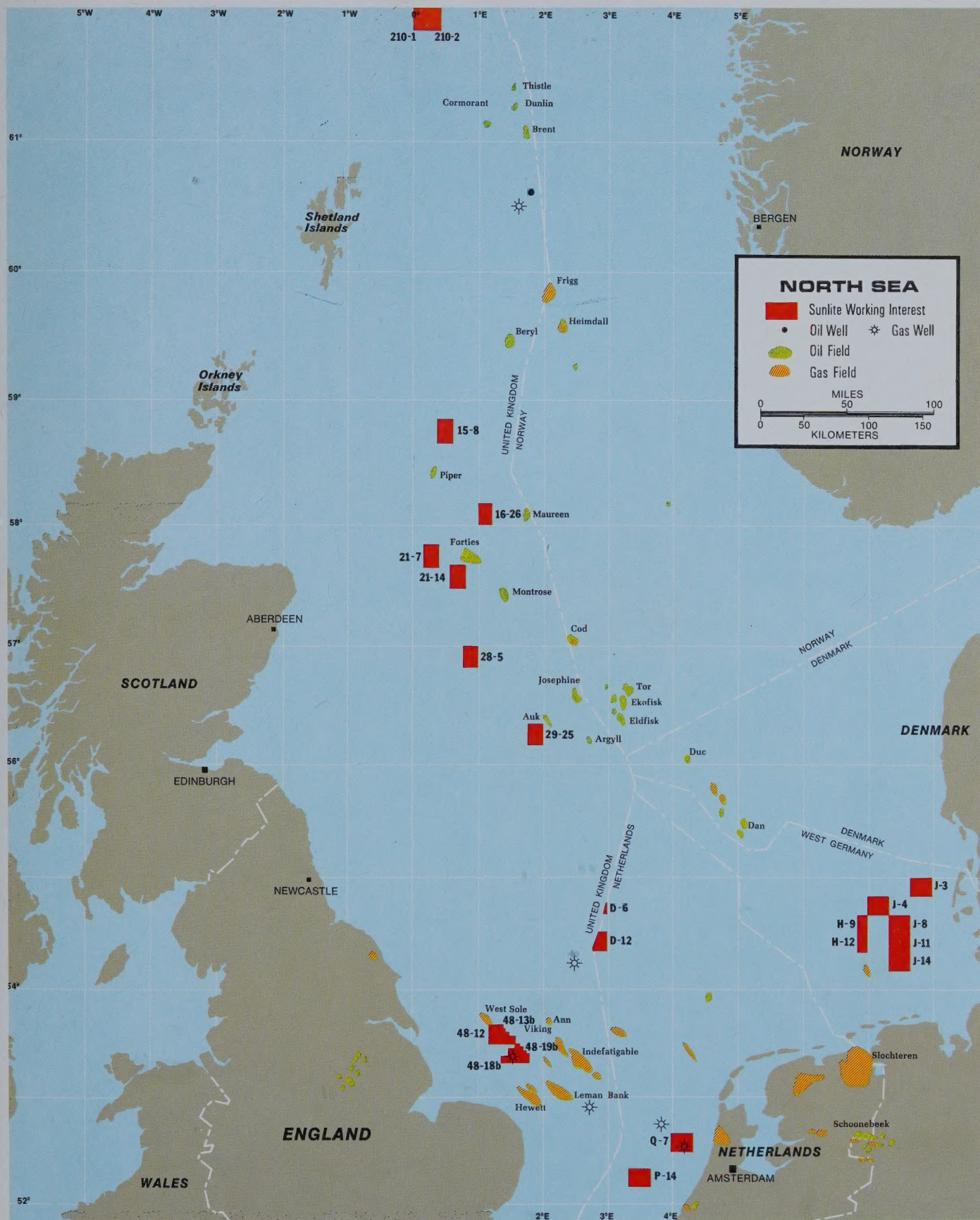
Germany

In the German North Sea, where the company has an interest in seven blocks with the Kewanee-NEEG group, final seismic and geological studies have delineated three large structures on our holdings with objectives in Cretaceous and Triassic horizons. This area is prospective for gas and close to a good market area in Germany.

Tests are planned in Germany for 1974 contingent upon rig availability.

Holland

The Sunlite-Holland Sea Search group (Sunlite 7.5%) was granted Blocks D-6 and D-12 in the last round of awards by the government. Technical work has been completed and a large structure prospective in the Bunter formation has been delineated. Because of scarcity of shallow water drilling rigs, this prospect probably won't be tested until 1975. Sunlite joined a group to drill a gas discovery well Q/7-1 on a farmout from NAM, earning a 5% interest in two additional blocks Q/7 and P/14. Limited testing indicates that the discovery may be commercial, and further stepout drilling is planned to determine the size of the field. The company is also participating in a farmout from Mobil Oil Company in which an interest will be earned in blocks P/6, P/8 and S/2. A well drilled by Mobil on block P/6, found a gas zone which we believe to be on the same structural trend as our Q/7 discovery.



UNITED KINGDOM SECTOR BLOCKS

<u>Block Number</u>	<u>Company interest</u>	<u>Gross acres</u>	<u>Net acres</u>
15/8	10%	53,236	5,313
16/26	10%	54,115	5,412
21/7	5%	54,610	2,730
21/14	5% *	54,860	2,743
28/5	10%	55,869	5,587
29/25	10%	56,858	5,686
48/12	5%	60,705	3,035
48/13(b)	5%	32,175	1,609
48/18(b)	8 $\frac{1}{3}$ %	32,518	2,709
48/19(b)	8 $\frac{1}{3}$ %	42,674	3,555
210/1	7 $\frac{1}{2}$ %	48,800	3,660
210/2	7 $\frac{1}{2}$ %	48,800	3,660
TOTAL		595,110	45,699

*Under terms of farmout, this interest may be reduced to 2 $\frac{1}{2}$ %.

GERMAN SECTOR BLOCKS

<u>Block Number</u>	<u>Company interest</u>	<u>Gross acres</u>	<u>Net acres</u>
H-9	7 $\frac{1}{2}$ %	49,370	3,703
H-12	7 $\frac{1}{2}$ %	49,370	3,703
J-3	7 $\frac{1}{2}$ %	98,741	7,405
J-4	7 $\frac{1}{2}$ %	98,740	7,405
J-8	7 $\frac{1}{2}$ %	98,741	7,405
J-11	7 $\frac{1}{2}$ %	98,741	7,405
J-14	7 $\frac{1}{2}$ %	98,741	7,405
TOTAL		592,444	44,431

DUTCH SECTOR BLOCKS

<u>Block Number</u>	<u>Company interest</u>	<u>Gross acres</u>	<u>Net acres</u>
D-6	7 $\frac{1}{2}$ %	16,061	1,205
D-12	7 $\frac{1}{2}$ %	60,540	4,540
Q-7	5%	102,000	5,100
P-14	5%	103,000	5,150
TOTAL		281,601	15,995



Southeastern United States

Exploratory drilling has continued at a high level in the Florida Panhandle-South Alabama area. Three exploratory wells are currently under way where Sunlite has leases within the prospect area: Watson #3 International Paper Company and Exxon #1 U.S. Steel Corp. in Baldwin County, Alabama and Forest #1 Betty Joe Anderson in Mobile County, Alabama.

It is expected that activity will continue to increase and additional tests will be drilled on or near Sunlite's holdings in the forthcoming year. While there have not been any discoveries offsetting our leases, we believe that the area is highly prospective and our holdings will continue to increase in value.

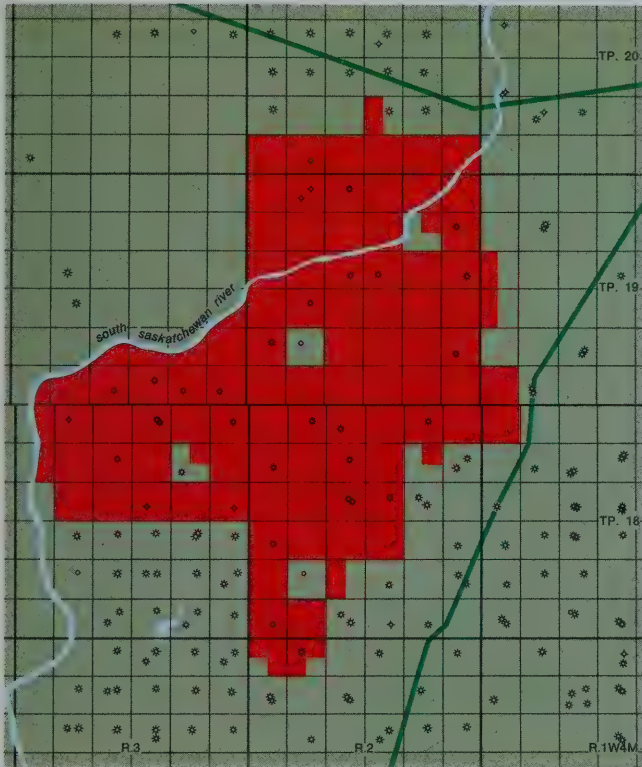
FLORIDA ALABAMA MISSISSIPPI

- Sunlite Working Interest
- Location or Drilling Well



HILDA - MEDICINE HAT ALBERTA

- Sunlite Working Interest
- Location or Drilling Well
- * Gas Well
- ◇ Abandoned



Canada

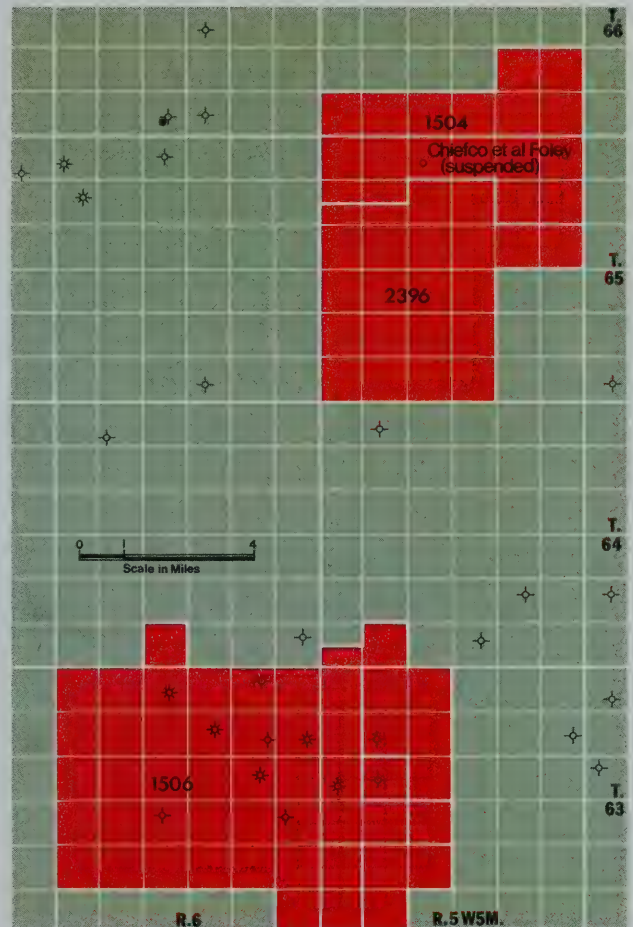
Medicine Hat — Hilda

The company completed eight gas wells on our Medicine Hat block during the latter part of the period under review. We now have 23 gas wells capable of Milk River gas production. One well has been placed on production on a temporary test basis while the remaining 22 wells are shut-in awaiting a gas contract.

In the Hilda area, approximately 30 miles north-east of Sunlite's Medicine Hat development area, we have concluded purchase of a royalty interest from Canada Northwest Lands Limited covering 58,000 acres. Under terms of the agreement, we expect to receive \$100,000 per year for the first seven years and a reduced amount each year thereafter. The development program will be completed at no cost to Sunlite and the first delivery of gas is expected in early 1974.

DORIS CREEK - FOLEY ALBERTA

- Sunlite Working Interest
- Location or Drilling Well
- Oil Well
- * Gas Well
- ◇ Abandoned

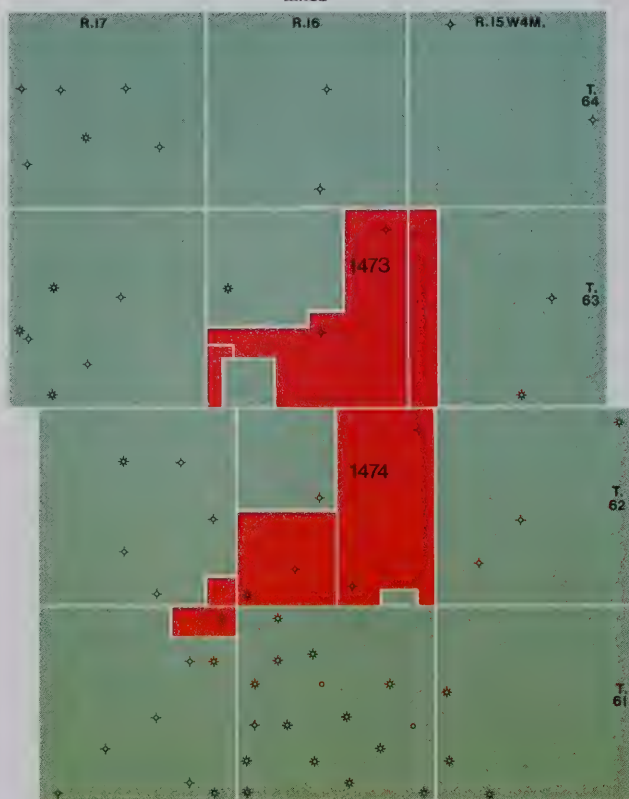
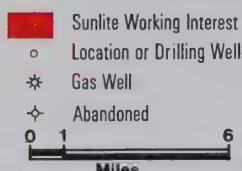


Doris Creek — Foley

In the Doris Creek area of Central Alberta, Sunlite and partners drilled three gas wells and two dry holes during fiscal 1973. One of the abandonments was an earning well drilled at no cost to Sunlite under terms of a farmout agreement with Mesa Petroleum. The group has completed five gas wells at Doris Creek with the reserves committed to Pan Alberta Gas Ltd. at a contract price of 38¢/Mcf. We do not expect to do any additional development drilling until Pan Alberta's gas export application has been approved. Sunlite's interest in the Doris Creek development area is 5%.

Immediately north of Doris Creek is the Foley prospect, comprised of Reservation No. 1504 (Sunlite 10%) and Reservation No. 2396 (Sunlite 12.6%) totalling 24,320 acres. The Sunlite group spudded the well, Chiefco et al Foley 6-33-65-5 last winter

EDWAND, ALBERTA



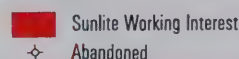
but were forced by an early spring break-up to move the rig off location prior to reaching the objective depth. We will be re-entering this well during the coming winter drilling season.

Edwanda

Bankeno Mines Limited completed a Nisku gas discovery well on lands farmed in from the Sunlite-Chieftain group in the Edwanda area of east central Alberta. Sunlite has retained a net 5% working interest in the well and the lease on which it was drilled. In addition, we have interests ranging from 6.67% to 15% in two permits and three leases acquired subsequent to the Edwanda gas discovery.

It is expected that the group will drill at least one exploratory well on each of the recently acquired permits and two development tests near the gas discovery during the coming winter drilling season.

BUFFALO, ALBERTA



Buffalo (Wabiskaw)

During the past twelve months industry has been making a concerted effort to evaluate the potential of heavy oil sand deposits in the Buffalo (Wabiskaw) area. The accumulations occur at a depth of 700 - 1,300 feet as opposed to the more familiar surface deposits of the Athabasca tar sands which are now being processed. However, due to the critical world oil shortage, the increased price and the fact that more efficient in situ extraction processes have been developed, interest in the large subsurface deposits has heightened. Land prices in the Buffalo area have increased with recent sales ranging from \$137.00 to \$496.00 a lease acre.

Your company has a 36% interest in two reservations containing 46,000 acres which present information indicates are underlain by more than two billion barrels of heavy oil.

A major company drilled eight wells to the west of our holdings during the past winter and will continue its evaluation program this winter with two drilling rigs. Sunlite and partners plan to drill one well on each of the Buffalo reservations this year to be followed up by a more definitive evaluation program during the 1974/75 winter.

Arctic

Sunlite sold 352,772 acres of land on Ellesmere Island to Canada-Cities Service Ltd. for \$2,100,000.00 retaining a 3% gross overriding royalty. Cities agreed to carry Sunlite's remaining northern Ellesmere Island acreage at no cost to the company through the 6 year term and first five renewals of such permits.

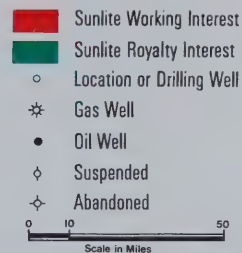
During the period under review, drilling activity in the Arctic Islands has continued to increase. There were 21 wells drilled this year compared to 16 wells in 1972. Some of the more significant discoveries were by Panarctic on Melville Island and by Dome on King Christian Island. We expect that a number of wells will be drilled this coming season on Axel Heiberg Island and Ellesmere Island, areas in which the major part of Sunlite's Arctic acreage is located. The company has 739,000 net working interest acres and royalty interests in 733,000 acres in the Arctic Islands.

Mackenzie Delta/Beaufort Sea

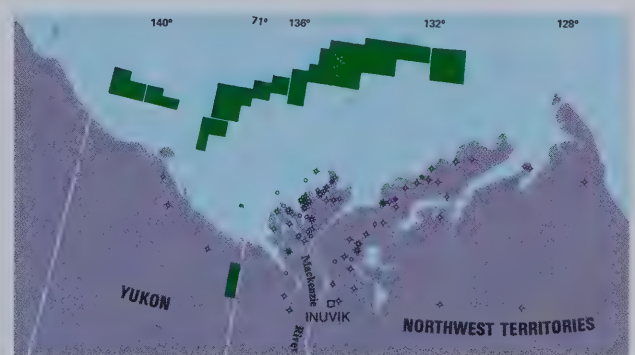
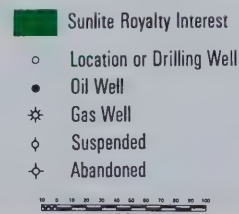
The most significant development to Sunlite in the Mackenzie Delta/Beaufort Sea area during the past year was the licensing by Imperial Oil Limited of two wells to be drilled on man-made islands in the Beaufort Sea. Sunlite has a gross overriding royalty on nearly three million acres in the offshore area.

The company also has a royalty interest on 117,439 acres onshore in the western part of the Delta. The latter acreage is situated west of a 1.2 million acre spread held by Shell Canada Limited. Shell has recently concluded an agreement with a major gas transmission company that will provide \$38.5 million for a portion of the cost of exploring and developing Shell's acreage.

ARCTIC ISLANDS



MACKENZIE DELTA



Australia

During the fiscal year a group in which Sunlite has a 5% interest was awarded a 6 million acre license in the Gulf of Carpentaria in northern Australia. The group has completed 1,600 miles of seismic work, which is currently being interpreted. The holdings are located in a large sedimentary basin with good potential for hydrocarbons.

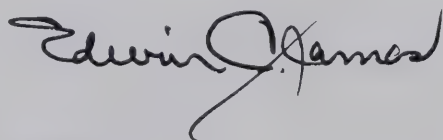
Gambia

Sunlite has acquired a 5% interest in an oil and gas concession on the continental shelf offshore of Gambia on the west coast of Africa. A reconnaissance seismic program completed on the holdings is being evaluated.

Sudan

The company and partners are negotiating final terms of oil exploration licenses in the Suakin area in the Red Sea, offshore Sudan covering 1.8 million acres. It is anticipated that the licenses will be awarded in early 1974 and if negotiations are successful, seismic operations will be undertaken soon thereafter.

For the Board of Directors:



EDWIN C. JAMES
President

November 19, 1973.



Financial Statements

Auditors' Report

To the Shareholders
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited and its subsidiaries as at September 30, 1973 and the consolidated statements of earnings, retained earnings (deficit) and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in Note 2 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
November 14, 1973

RIDDELL, STEAD & CO.
Chartered Accountants

Consolidated Balance Sheet

As At September 30, 1973

Assets

CURRENT ASSETS

Cash	\$1,290,842	\$1,807,074
Marketable securities, at cost (Market Value \$368,000)	305,750	—
Accounts receivable (Note 2)	383,166	297,669
Lease trading inventory, at lower of cost and net realizable value	37,271	56,327

2,013,029

2,161,070

PROMISSORY NOTES of officers and directors,
non-interest bearing, due 1975 and 1978 (Note 3)

340,000

100,000

FIXED ASSETS, at cost (Note 1)

Petroleum and natural gas leases and
rights together with development
and equipment thereon

Producing	1,304,914	591,676
Accumulated depletion and depreciation	179,103	153,150
	1,125,811	438,526

Non-producing

Leases	2,675,433	2,649,021
Royalty rights	745,367	378,303
Other	1,045,418	669,475

5,592,029

4,135,325

Other mineral rights, including development

156,135

148,459

5,748,164

4,283,784

OTHER ASSETS

16,346

15,669

\$8,117,539

\$6,560,523

Liabilities

CURRENT LIABILITIES

Accounts payable

Shareholders' Equity

CAPITAL STOCK (Note 3)

Authorized

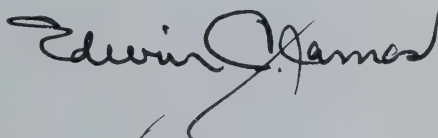
6,000,000 shares without nominal or
par value

Issued

2,377,932 shares (1972—2,337,932 shares)

RETAINED EARNINGS (DEFICIT)

Signed on behalf of the Board:



Director



Director

1973

1972

\$ 527,616

\$ 331,835

7,261,431

7,021,431

320,497

(792,743)

7,581,928

6,228,688

\$8,117,539

\$6,560,523

Sunlite Oil Company Limited
And Subsidiary Companies

Consolidated Statement Of Earnings

For The Year Ended September 30, 1973

REVENUE

Oil and gas sales
Interest
Lease sales
Other

EXPENSE

Operating
General and administrative
Carrying charges on non-producing properties
Dry hole costs
Exploration
Property surrenders and write-offs
Depletion and depreciation

Earnings (loss) before undernoted items

Gain on sale of non-producing property

Gain on sale of marketable securities

EARNINGS (LOSS) (Note 4)

EARNINGS (LOSS) PER SHARE (Note 4)

(Based on weighted average number of
shares outstanding)

Consolidated Statement Of Retained Earnings (Deficit)

For The Year Ended September 30, 1973

DEFICIT AT BEGINNING OF YEAR

EARNINGS (LOSS)

RETAINED EARNINGS (DEFICIT) AT END OF YEAR

1973	1972
\$ 179,697	\$ 38,507
151,874	168,909
1,982,982	—
2,329	8,490
<u>2,276,802</u>	<u>215,906</u>
27,709	13,075
397,736	241,449
111,126	93,500
242,279	9,350
133,235	96,959
281,591	440,403
26,417	7,221
<u>1,220,173</u>	<u>901,957</u>
1,056,709	(686,051)
22,865	23,642
41,661	—
<u>\$1,121,235</u>	<u>\$ (662,409)</u>
\$.47	\$ (.29)

1973	1972
\$ (792,743)	\$ (130,334)
1,121,235	(662,409)
<u>\$ 328,492</u>	<u>\$ (792,743)</u>

Consolidated Statement Of Source And Application Of Funds

For The Year Ended September 30, 1973

	1973	1972
FUNDS DERIVED FROM		
Operations		
Earnings	\$1,121,235	\$ —
Add non-cash items		
Depletion and depreciation	26,417	—
Property surrenders and write-offs	281,591	—
	<u>1,429,243</u>	<u>—</u>
Deposits refunded	—	28,046
Issue of capital stock (Note 3)	240,000	204,775
Other	—	4,038
	<u>1,669,243</u>	<u>236,859</u>
FUNDS APPLIED TO		
Operations		
Loss	—	662,409
Deduct non-cash items		
Depletion and depreciation	—	7,221
Property surrenders and write-offs	—	440,403
	<u>—</u>	<u>214,785</u>
Fixed assets		
Drilling and development	440,305	375,031
Property acquisitions	1,320,654	1,429,151
Mineral rights	11,428	3,698
Advance to officers and directors (Note 3)	240,000	—
Other	678	1,392
	<u>2,013,065</u>	<u>2,024,057</u>
DECREASE IN WORKING CAPITAL	(343,822)	(1,787,198)
Working capital at beginning of year	1,829,235	3,616,433
WORKING CAPITAL AT END OF YEAR	<u>\$1,485,413</u>	<u>\$1,829,235</u>

Notes To Consolidated Financial Statements

September 30, 1973

NOTE 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc. (formerly Sunlite Nevada, Inc.), Sunlite Oil Company (U.K.) Limited, Carter Royalty Corporation and Cameron Drilling Corporation.

Amounts in foreign currency are converted to Canadian dollars on the following basis:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Fixed assets, at the rate of exchange at the date of acquisition.
- (iii) Revenue and expenses, at the average rate of exchange for the year.

Petroleum and Natural Gas Properties

Exploration expenses and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the costs of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

The acquisition costs of leases, royalty rights and other interests are capitalized. Costs are charged to earnings when properties are surrendered or considered to be of decreased value. The costs of producing leases, royalty rights and other interests are amortized using the unit of production method.

Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

NOTE 2 ACCOUNTS RECEIVABLE

Included in accounts receivable at September 30, 1973, is an amount of \$191,500 representing the amount due on sale of mineral properties. During October, 1971 the company commenced legal action to collect this amount. Counsel for the company had advised that, in their opinion, the claim is valid.

NOTE 3 CAPITAL STOCK

Changes in capital stock during the year ended September 30, 1973 were as follows:

	<u>Number of Shares</u>	<u>Consideration</u>
Balance at September 30, 1972	2,337,932	\$7,021,431
Shares issued to officers and directors for cash*	40,000	240,000
Balance at September 30, 1973	<u>2,377,932</u>	<u>\$7,261,431</u>

* The company advanced the \$240,000 to officers and directors in return for their non-interest bearing promissory notes due in 1978. These notes and the note receivable from an officer and director due in 1975 are secured by the applicable shares issued.

As at September 30, 1973, 116,500 shares of the capital stock of the company were reserved under stock options granted to employees. Of these 2,500 are exercisable in cumulative installments until November 20, 1973 at a price of \$4.00 per share, 4,000 are exercisable in cumulative installments until 1977 at \$6.50 per share and 110,000 are exercisable in cumulative installments until 1978 at \$6.00 per share.

NOTE 4 INCOME TAXES

The companies provide in their accounts only for income taxes payable. This policy differs from the tax allocation basis of accounting recommended by The Canadian Institute of Chartered Accountants under which the income tax provision is based upon earnings reported in the accounts. If the tax allocation basis had been followed for all timing differences between taxable income and reported operating results, the income tax provision for 1973 would have been \$845,600 or \$.36 per share (1972 tax recovery \$88,797 or \$.04 per share); the 1973 earnings and 1972 loss would have decreased accordingly. The accumulated income tax reductions relating to all timing differences prior to September 30, 1973 amount to approximately \$990,000 at that date.

While the companies' tax accounting method is consistent with the prevailing practice in the oil and gas industry in Canada, the Securities Commissions in Canada have questioned the appropriateness of the flow-through method and studies are currently under way in this regard. In the event that these studies do not, in the opinion of the Securities Commissions, establish a sound theoretical basis to justify the flow-through method, the Commissions have stated that companies in the oil and gas industry should be prepared to adopt the tax allocation method of accounting commencing in 1974.

NOTE 5 REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the current year to directors and senior officers totalled \$133,000.

NOTE 6 COMMITMENTS

As of September 30, 1973, the company had issued non-interest bearing demand notes aggregating approximately \$403,000 to governmental agencies as security for the performance of work obligations in respect of normal exploration activities.

**sunlite
oil
company
limited**



Annual Report 1973